

**CALIFORNIA
PUBLIC EMPLOYEES' RETIREMENT SYSTEM**

DOMESTIC PROXY VOTING GUIDELINES

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CONTENTS

<u>ITEM</u>	<u>PAGE</u>
BOARD'S FINANCIAL RESPONSIBILITY CRITERIA	3
A. Board	3
B. Capital Structure	5
C. Corporate Governance & Contract Issues	7
D. Executive Compensation & Stock Option Plans	7
BOARD'S SOCIAL RESPONSIBILITY CRITERIA	9
DOMESTIC PROXY VOTING GUIDELINES	10
1000. The Board of Directors	10
2000. Corporate Governance Issues	14
3000. Capital Structure	16
4000. Executive Compensation	18
5000. Proxy Voting Process	21
8000. Social/Political Issues	22

BOARD'S FINANCIAL RESPONSIBILITY CRITERIA

A. BOARD

Annual Election Versus Staggered Terms

Generally, votes are to be cast in favor of annual election of all directors and against staggered terms. When a proposal to adopt staggered terms for directors has been approved by a vote of shareholders, votes may be cast in favor of directors who are standing for staggered terms in those instances in which a vote for such directors is viewed to be in the financial interest of the System. In cases in which a vote for such directors is viewed to be inimical to the financial interest of the System, votes may be withheld or cast against the election of directors who are standing for staggered terms. In such instances, consideration may be given to proposing the repeal of staggered terms.

Consulting Fees

Votes are to be withheld for directors who may have an inherent conflict by virtue of receiving consulting fees from a corporation. Examples of consulting fees are fees paid to legal counsel and to investment bankers who underwrite the corporation's securities.

Constituency Representation

Votes are to be cast against resolutions which provide for constituency representation on boards of directors. It is concluded that the corporate board members primary responsibilities should be to direct the companies in the interest of all the shareholders. Any proposed director qualifications should relate to a prospective director's capacity to function on behalf of all the shareholders.

In keeping with this voting philosophy, cumulative voting is not to be used in a manner which would promote such constituency representation on the board of a corporation.

Cumulative Voting

Votes will be cast in favor of cumulative voting proposals as required for governmental pension funds under California law. (Sec. 6900, Government Code).

Elimination Or Limitation of Director's Liability

Votes will be cast against company proposals that request the elimination or limitation of directors' liability for acts involving gross negligence, or other violations of the duty of care that go beyond reasonable standards.

Increased Indemnification

Votes will be cast for company proposals requesting increased indemnification of directors and officers due to damages caused by violations of the duty of care, provided the director satisfied a "good faith" standard.

In addition, votes will be cast for increased indemnification proposals where a director's or officer's defense was unsuccessful, unless there is a final adjudication that the director or officer acted in bad faith and not for a purpose that he or she reasonably believed to be in the best interest of the company.

Oversight Responsibilities

Votes shall generally be cast for the entire slate of directors nominated by the board, except when it appears that the existing board has been remiss in the performance of its oversight responsibilities. Staff will contact management whenever it appears that such oversight responsibility has not been performed appropriately, and is in jeopardy of harming the fund's long-term return expectations. The factors that may be considered when making this evaluation are the establishment of anti-takeover devices, limitation of shareholder rights, abusive compensation schemes, or persistent and long-term poor economic performance. If the response from management is deemed unsatisfactory, the entire slate of directors shall be voted against at the shareholders' meeting. The company shall be notified of this intention.

Shareholder campaigns to withhold votes for directors will be evaluated and supported under the same standards as we apply for independent internal decisions.

B. CAPITAL STRUCTURE

Authorization Of Increased Shares

Authorization of increased shares shall be limited to that amount which may be necessary for financing within the next twelve months unless the corporation sets forth other compelling reasons. It is deemed advisable to exercise some control over authorized stock and the issuance thereof to allow shareholders input on acquisitions which could change the fundamental characteristics of the company held.

Management Buyouts

Whenever a publicly traded corporation seeks to become privately owned via a leveraged buyout transaction, staff will evaluate carefully whether the transaction is in the best interests of the shareholders or whether it is designed mainly to further the interests of current management.

Staff will take into consideration the following guidelines:

- Management buyouts should be permitted only after potential bidders have an opportunity to investigate a company and make competing bids.
- Management should be prohibited from using any devices including so-called "lockup" devices, that prevent third-party bidders from competing fairly with management or its allies.
- If management already has a controlling interest, it should be willing to match or top any competing offers in buying out the remaining public shareholders or, alternatively, sell its shares to the highest bidders.

If staff's evaluation indicates that management is not pursuing fully the best shareholders' interests, a vote against the leveraged buyout proposal will be cast.

Mergers/Acquisitions

All financial proposals relating to mergers and acquisitions, tender offers, threatened takeovers and management's response to same, will be given close scrutiny case-by-case to determine the impact upon the System's interests.

Any proposal or response by management or outside interests determined to be detrimental to the interest of shareholders will be vigorously opposed. Opposition may include one or all of the following: casting proxy votes against the detrimental actions, communication with company management, participation in shareholder suits, attending and making statements at shareholder meetings, participating in shareholder interest groups, or any other actions, including selling the shares, if such actions are deemed beneficial to the interests of the System.

Preemptive Rights

Votes are to be cast for proposals which would grant preemptive rights to shareholders, except for new issues of stock representing five percent or less of capital. In addition, votes are to be cast against proposals which would eliminate preemptive rights, except for new issues of stock representing five percent or less of existing capital.

Repurchase of Stock

Any repurchase by a company of its stock should be scrutinized to ensure that it is for legitimate corporate purposes and not an attempt to strengthen corporate defenses against an acquisition which we favor.

It is acknowledged, however, that shareholders often do not have the opportunity to vote on such repurchases. Generally, the board will approve a repurchase program whereby the company is authorized to repurchase up to a designated amount of the company's capitalization over a period of time. When given the opportunity to vote on such an initiative, the appropriateness of such a purchase will be assessed.

Simple Majority Approval

Generally, votes are to be cast in favor of simple majority approval of disinterested (not held by bidders) shares outstanding as appropriate for merger proposals. Proposals seeking higher percentages may be approved only if approval is in the financial interest of the System.

Additionally, proposals to adjourn a special or other meeting in order to continue to resolicit until the desired vote has been achieved must be considered carefully as to the appropriateness of continued solicitation.

C. CORPORATE GOVERNANCE & CONTRACT ISSUES

Auditors

When there is reason to believe the company's auditors have become complacent in the performance of their auditing duties, a vote against auditors' continuance will be cast.

Golden Parachutes

Any attempt to create an unusually favorable compensation structure in advance of sale of a company should be examined on a case-by-case basis.

It should be noted, however, that the potential sale of a company may not be evident at the time the plan is being proposed. When such an event takes place, shareholders may not be able to do anything more than look to history in making future decisions, or file a class action suit.

Shareholder Proposals

In general, all shareholder proposals on financial matters are to be given due consideration by the System. It is incumbent on the companies to respond adequately to these proposals. An inadequate or casual response may weigh against management's recommendation.

Additionally, those shareholder initiatives which could have an impact on the best interest of the beneficiaries of the System or have financial implications will be carefully assessed for the direction of such an impact.

D. EXECUTIVE COMPENSATION & STOCK OPTION PLANS

Director Stock Option Plans

Stock option plans for outside directors will be approved if they appear reasonable, contain fixed issue and exercise rules, and do not represent excessive dilution. Additionally, stock options which are in lieu of, instead of/or in addition to, cash compensation will be more favorably viewed.

Loans To Officers

Corporate proposals to grant large loans to corporate officers for the purpose of buying stock, especially if at subsidized interest rates, should be given close scrutiny.

It is infrequent that shareholders are given the opportunity to vote on an actual loan package for executives. It is more likely that the company will grant such loans and inform shareholders after the fact via the proxy statement that this has been done. Generally, when shareholders have the opportunity to vote on such an issue, it is in the context of a plan where loans are one of the provisions being submitted. It is important to look at past practices. If a company has used such loans very heavily in the past, and in many instances these loans have been later "forgiven", then, in the context of the plan, these past practices might have a bearing on the final vote.

As a stand alone item, a negative vote would generally be indicated unless circumstances were of such an unusual nature that an exception is called for.

Repricing Of Options

Corporate proposals to reduce stock option share prices for management should be given close scrutiny. If it appears the request arises out of a broad market decline affecting all companies, favorable consideration is possible. If the particular company's stock has underperformed the market and it is concluded the causes were management decisions, a negative conclusion would be probable.

It is infrequent that shareholders are given the opportunity to vote on an actual repricing situation. It is more likely that the company will reprice and inform shareholders after the fact. When responding to a proposal to reprice or to approve a plan which provides for repricing, the two most important factors will be stock price performance (inverse relationship to the likelihood of repricing) and history of repricing (past practices).

Stock Options

Stock option and incentive compensation plans must have the overriding purpose of motivating corporate personnel. Such plans shall be closely related to individual and corporate performance. Votes are to be cast against any considered unduly generous. Salaries and perquisites shall be considered also in reaching this decision. (Salaries for corporate executives, as well as all company personnel, should reflect the exact requirements of the marketplace. Personnel should be paid only the amount necessary to attract and retain the skills and abilities required. All perquisites must reflect a justifiable corporate need and should be able to stand on their own merits under a cost-benefit analysis.)

Such votes must be determined on a case-by-case basis in the context of the company. Plans which are overly broad call for an examination of the company's past practices to determine how conservative or aggressive the company may be in using some of the provisions which are of particular concern.

BOARD'S SOCIAL RESPONSIBILITY CRITERIA

The Board's stated fiduciary duty is to obtain the highest return for the Fund commensurate with acceptable levels of risk. This implies that non-financial considerations cannot take precedence to pure risk/return considerations in the evaluation of investment decisions. However, actions taken by the Fund as a share-owner can be instrumental in encouraging action as a responsible corporate citizen by the companies in which the Fund has invested.

The Board expects the managements of the companies whose equity securities are held in the Fund's portfolio to conduct themselves with propriety and with a view toward social considerations. A level of performance above minimum adherence to the law is generally expected. If any improper practices come into being, the Board expects corporate management to move decisively to eliminate them and effect adequate controls to prevent recurrence.

If a company operates in a country or environment where serious human rights violations occur, the Board expects to see maximum progressive practices toward elimination of these violations. For employees who are disadvantaged because of such violations, the Board expects the companies to persist in availing themselves of every reasonable and legally permissible means to ensure that all of their employees and their families have what they need to pursue a life of dignity and personal well-being. Operating in such an environment shall carry with it special reporting burdens necessary to keep shareholders informed. If there is apparent lack of progress, the matter shall be viewed carefully to determine if a company is implicitly acquiescing in other parties' repressive practices.

On the other hand, the Board does not intend to supplant the duties which are the responsibility of federal or state regulatory agencies, such as the Equal Employment Opportunity Commission, the Environmental Protection Agency, the Occupational Safety and Health Agency, the Nuclear Regulatory Commission, the Securities and Exchange Commission, and others which are covered by law of the United States government or the State of California.

Should satisfaction of the Board's criteria by any company not be adequate, the Board will consider what action to take, which may include, but not be limited to, correspondence with the company, meetings with company officials, sponsoring of shareholder resolutions or, as a last resort, liquidation of System holdings in the company, if the sale is consistent with sound investment policy.

DOMESTIC PROXY VOTING GUIDELINES

PERS' Board of Administration has delegated to its staff the authority to execute all proxies and voting instructions, consistent with the Board's policies. The following guidelines are intended to assist in performing this task. These are, however, merely guidelines. The Board recognizes that specific situations may call for unique responses. For this reason, PERS' Chief Executive Officer or Chief Investment Officer may authorize, on a case-by-case basis, a vote on behalf of PERS which differs from these guidelines.

PERS' Board also recognizes that some matters may be presented to shareholders in a combined form, in which the guidelines described below would call for inconsistent votes. PERS' staff is authorized to vote on such combined proposals on a case-by-case basis and in a manner that is consistent with the goal of protecting, preserving and maximizing the long-term interests of shareholders.

1000 THE BOARD OF DIRECTORS

1100 Voting on Director Nominees

Votes shall generally be cast for the entire slate of directors nominated by the board, except when it appears that the existing board has been remiss in the performance of its oversight responsibilities.

Staff will contact management whenever it appears that such oversight responsibility has not been performed appropriately, and is in jeopardy of harming the fund's long-term return expectations. Among the factors that may be considered when making this evaluation is the establishment of anti-takeover devices, limitation of shareholder rights, abusive compensation schemes, or persistent and long-term poor economic performance. If the response from management is deemed unsatisfactory, the entire slate of directors shall be voted against at the shareholders' meeting. The company shall be notified of this intention.

Votes are to be withheld for directors who may have an inherent conflict by virtue of receiving consulting fees from a corporation. Examples of consulting fees are fees paid to legal counsel and to investment bankers who underwrite the corporation's securities.

Votes will be withheld for those directors who have a poor attendance record (less than 75%) at board meetings.

Shareholder campaigns to withhold votes for directors will be evaluated and supported under the same standards as we apply for independent internal decisions.

1110 Classified (Staggered) Boards

Generally, votes are to be cast in favor of annual election of all directors and against staggered terms. When a proposal to adopt staggered terms for directors has been approved by a vote of shareholders, votes may be cast in favor of directors who are standing for staggered terms in those instances in which a vote for such directors is viewed to be in the financial interest of the System. In addition, votes will be cast in favor of shareholder proposals to repeal classified boards.

1120 Constituency Representation

Votes will be cast against resolutions that provide for constituency representation on boards of directors.

1130 Cumulative Voting

We will vote in favor of cumulative voting proposals and against proposals calling for repeal of cumulative voting in the election of directors. (Section 6900, California Government Code)

1140 Proxy Contests for Board Seats

All votes in a contested election of directors must be evaluated on a case-by-case basis. Both slates of candidates should be evaluated. In addition, votes should be based on a thorough analysis of what each contesting side is offering.

1150 Director Nominations

Votes should be cast in favor of shareholder proposals asking that management allow large shareholders equal access to management's proxy to discuss and evaluate management's director nominees.

Shareholder proposals requesting that nominations from the floor at the annual meeting be moved to the proxy statement and ballot will be evaluated case-by-case. Factors to consider are the company's performance relative to its peers, the identity and motivation of the proponent, and the quality and complementary skills of the existing board.

1160 Inside versus Independent (or Non-Affiliated) Directors

Votes should be cast in favor of shareholder proposals asking that boards be comprised of a majority of independent directors.

Votes should be cast in favor of shareholder proposals asking that board audit, compensation and nominating committees be comprised exclusively of independent directors.

Votes should be withheld for directors who may have an inherent conflict of interest by virtue of receiving consulting fees from a corporation (affiliated outsiders) if the fees are significant or represent a significant percent of the director's income.

1170 Advisory Shareholder Committees

The decision to create an advisory shareholder committee and the decision to join an already established advisory shareholder committee should be evaluated on a case-by-case basis.

1180 Director Statement in Support of Candidacy

Shareholder proposals asking boards to adopt a policy requiring every nominee for a seat on the Board of Directors to provide a statement in support of their candidacy are believed in most cases unnecessary and generally will be voted against.

1200 Elimination or Limitation of Director's Liability

Votes will be cast against company proposals that request the elimination or limitation of directors' liability for acts involving gross negligence, or other violations of the duty of care that go beyond reasonable standards.

1210 Increased Indemnification

Votes will be cast for company proposals that request increased indemnification of directors and officers due to damages caused by violations of the duty of care provided the director satisfied a "good faith" standard. In addition, votes will be cast for increased indemnification proposals where a director's or officer's defense was unsuccessful, unless there is a final adjudication that the director or officer acted in bad faith and not for a purpose that he or she reasonably believed to be in the best interest of the company.

1300 Size of the Board

Votes to increase or decrease the size of the board and to allow the board to set its own size will be determined on a case-by-case basis. The vote will depend on the current size of the board, the stated and unstated reasons for the change and the probability that the proposed change might be used as an anti-takeover device.

1310 Stock Ownership Requirements

Votes will be cast against shareholder proposals requiring directors to own a minimum amount of company stock in order to qualify as a director, or to remain on the board.

1320 Term of Office

Votes will be cast against shareholder proposals to limit the tenure of outside directors.

1330 Age Restriction for Director Nominees

Shareholder or management proposals are introduced sometimes to impose or remove age restrictions on Director nominees. These proposals should be evaluated on a case-by-case basis taking into account the personal circumstances of the nominees and the reasons for the proposal.

1400 Board Diversity

Shareholder proposals asking for diversity (women and minority members) on the board will be examined case-by-case. If the company's performance is below that of its industry peers and its current board does not contain diverse membership, a vote may be cast in support of the proposal.

1500 Replacement of "Withhold" with "Against" on the Vote for Directors

Shareholder proposals asking to provide boxes on the proxy card to vote "for", "abstain" or "against" each director nominee instead of the current "withhold" box will be supported.

1600 Create an Independent Directors Committee

The independent directors committee, empowered to hire and fire staff, would provide independent directors with sufficient resources to not only evaluate management proposals, but to generate new ideas for the betterment of the company.

These shareholder proposals should be evaluated on a case-by-case basis. If the performance of the company has been substandard, approval of the proposal might be appropriate. On the other hand, if the performance of the company is above average, there is no reason to second guess management, and the proposal ought to be declined.

1700 Separate the Position of Chairman from that of CEO

Votes will be cast on a case-by-case basis on proposals to separate the Chairman from the CEO. If the company's performance is substandard, a vote for the proposal would be appropriate. If the company is small or it has been recently reorganized, a combination of the two positions might be necessary.

2000 CORPORATE GOVERNANCE ISSUES

2100 Ratification of Auditors

Votes will be cast in favor of ratification of auditors. However, in those cases where there has been a change in auditors from the prior year and it is determined the cause is strict enforcement of accounting principles and practices by the terminated firm, a vote against ratification of auditors will be cast. Votes on shareholder resolutions asking for rotation of auditors will be determined on a case-by-case basis. A vote in favor of the resolution might be appropriate if the current auditors have been derelict in the performance of their auditing duties.

2200 Fair Price Provisions

Votes will be cast for management proposals to adopt a fair price provision as long as the shareholder vote requirement imbedded in the provisions is no more than a majority of the disinterested shares. All other management fair price proposals will be voted against. In addition, votes will be cast for shareholder proposals to lower the shareholder vote requirement imbedded in existing fair price provisions.

2300 Greenmail

Votes are to be cast in favor of shareholder proposals to adopt anti-greenmail charter or bylaw amendments or otherwise restrict a company's ability to make greenmail payments.

2400 Reincorporation

If the reincorporation is to a state that offers a more favorable structure to resist hostile takeovers, a vote will be cast against the proposal. If the change in domicile is to a state that does not offer a more favorable structure to resist hostile takeovers, a vote will be cast for the proposal.

2410 Opt Out of Delaware's Anti-Takeover Law

We will vote in favor of shareholder proposals to opt out of Delaware's anti-takeover law.

2500 Shareholders' Right to Call Special Meetings

Votes will be cast against management proposals restricting or prohibiting shareholders' from calling special meetings. In addition, votes will be cast for shareholder proposals allowing or encouraging shareholders to call special meetings.

2510 Shareholder Action by Written Consent

Votes will be cast against management proposals restricting or prohibiting shareholders from taking action by written consent. In addition, votes will be cast for shareholder proposals allowing or encouraging shareholder action by written consent.

2600 Stakeholder Provisions

Votes will be cast against management proposals allowing the board to consider stakeholder interests when faced with a takeover offer or in any context. In addition, votes will be cast for shareholder proposals to repeal charter and bylaw provisions allowing the board to consider stakeholder interests when faced with a takeover offer or in any context.

2700 Supermajority Vote Requirements to Amend Charter or Bylaws

Votes will be cast against management proposals to require a supermajority vote to amend any bylaw or charter provision. In addition, votes will be cast for shareholder proposals to lower supermajority vote requirements to amend any charter or bylaw provision. In those cases where supermajority lock-ins are bundled in with an underlying charter or bylaw amendment which we favor, votes will be cast in favor of the proposal as long as the lock-in is no greater than two-thirds.

2710 Supermajority Vote Requirement to Approve Mergers

We believe simple majority should be enough to approve mergers and other business combinations. Accordingly, votes will be cast against management proposals to require a supermajority shareholder vote to approve mergers and other significant business combinations. In addition, votes will be cast for shareholder proposals to lower supermajority vote requirements for mergers and other business combinations.

2800 Unequal Voting Rights

Votes will be cast against proposals to authorize or issue voting shares without full voting rights.

2900 Removal of Anti-takeover Provisions

Votes will be cast in favor of shareholder proposals asking for the removal of anti-takeover provisions.

2910 Shareholder Rights Plans (Poison Pills)

Because of both their positive and negative effects, we believe that shareholder proposals to redeem a company's poison pill should be examined on a case-by-case basis. Likewise, management proposals to ratify a poison pill should be examined on a case-by-case basis.

Approve only if the following factors occur:

- sunset provision of two or three years
- qualifying clause that permits shareholders to redeem the pill in the face of a bona fide offer
- record of giving shareholders an opportunity to consider prior tender offers
- absence of other takeover defenses

2920 Shareholder Rights

Votes will be cast in favor of shareholder proposals to submit shareholder rights plans to shareholder vote.

3000 CAPITAL STRUCTURE

3100 Increase Number of Authorized Shares of Common Stock

Each proposal to increase authorized shares of stock by up to 25 percent of the current number of authorized stock will be approved automatically. However, for increases in excess of that percent, particular attention will be given to the ratio of outstanding shares plus shares reserved for issue to authorized shares and to the potential uses of the new stock. Proposals will be approved if there is reasonable assurance the stock will be used for business purposes (e.g. a reasonable stock split, a stock dividend, or to replenish the stock reserved for stock option plans). If the additional stock could be used as an anti-takeover defense, votes will be cast against the proposal.

3110 Preferred Stock

Votes will be cast against management proposals authorizing the creation of new classes of preferred stock with unspecified voting, conversion, distribution and other rights.

We will look at proposals to increase preferred stock on a case-by-case basis. We need to differentiate those cases where the increase is for legitimate business purposes, as normally is the case with banks and financial service companies which request the increase to help meet core capital requirements, and where the increase might be used to implement antitakeover policies without further shareholder approval.

Votes will be cast for shareholder proposals to require a vote on any issuances of preferred stock.

3120 Preemptive Rights

Votes will be cast for shareholder proposals to provide shareholder preemptive rights, except for new issues of stock representing five percent or less of existing capital.

3300 Targeted Share ("White Squire") Placements

Votes will be cast for shareholder proposals requesting that companies first obtain authorization before issuing voting stock, warrants, rights or other securities convertible into voting stock, to any person or group, unless the voting rights at stake in the placement represent less than five percent of existing voting rights.

3400 Merger/Acquisitions

All financial proposals relating to mergers and acquisitions, tender offers, threatened takeovers and management's response to same, will be given close scrutiny case by case to determine the impact upon the System's interests.

3500 Change in Capital Structure

Case-by-case. Consider whether the proposed changes result in adverse consequences for existing shareholders.

4000 EXECUTIVE COMPENSATION

4100 Long-Term Incentive Plans

All proposals to adopt or amend a long-term incentive compensation plan should be examined on a case-by-case basis. Plans may be approved if they are not excessively dilutive and if they provide the right mix of incentives. Plans that allow repricing or replacing of stock options at lower prices will be voted against, unless the conditions mentioned in #4110 prevail.

4110 Repricing "Underwater" Stock Options

Corporate proposals to reduce stock option share prices for management should be given close scrutiny. If it appears that the request arises out of a broad market decline affecting all companies, favorable consideration is possible. If the particular company's stock has underperformed the market and its industry and it is concluded the causes were management decisions, a negative vote is indicated.

It is infrequent that shareholders are given the opportunity to vote on an actual repricing situation. It is more likely that the company will reprice and inform shareholders after the fact. When responding to a proposal to reprice or to approve a plan which provides for repricing, the two most important factors will be stock price performance (inverse relationship to the likelihood of repricing) and history of repricing (past practices).

4120 Shareholder Proposals on Executive Compensation

Shareholder proposals on executive compensation need to be evaluated on a case-by-case basis upon due consideration of the economic and financial circumstances of the targeted company and the language of the proposal. Proposals thought to be arbitrary, capricious, with a hidden agenda or with an insufficient cost-to-benefit ratio ought to be opposed. On the other hand, proposals that ask for increased pay disclosure or that ask for shareholder approval of pay packages ought to be supported. More specifically,

- Vote **AGAINST** shareholder proposals requesting to link executive pay to health care quality standards.
- Vote **AGAINST** shareholder proposals requesting a report on the relationship between executive pay and environmental standards.

- Vote on a **CASE-BY-CASE** basis on shareholder proposals requesting a report on the relationship between executive pay and corporate restructuring. Issues to consider are the company's financial performance relative to its industry, the level of total executive compensation for the company in comparison with its peer group, and the contrast between executive pay increases and the relative size of the layoff as a percent of the total work force.
- Vote **AGAINST** shareholder proposals with no option cash-in within six months of major layoff.
- Vote **AGAINST** shareholder proposals requesting to link executive pay to international enforcement of labor standards.
- Vote **AGAINST** shareholder proposals requesting a report on ways to link executive pay more closely to financial, social, and environmental performance.
- Vote **AGAINST** shareholder proposals requesting a report on ways to link executive pay to social performance.
- Vote **AGAINST** shareholder proposals requesting to link executive pay to equal employment practices.

4130 Bonus Plans

Management bonus plans designed to maintain deductibility for nondeferred compensation in excess of \$1 million for the top five corporate officers will be voted as follows:

- Vote **FOR** amendments to include administrative features or place a cap on annual grants any one participant may receive.
- Vote **FOR** amendments to add performance goals to existing compensation plans.
- Vote **FOR** cash or cash-and-stock bonus plans.
- Vote on a **CASE-BY-CASE** basis on amendments to increase shares reserved. Only those plans with acceptable dilution will be approved.

4200 Director Compensation

- 4210** All proposals regarding director compensation should be examined on a case-by-case basis. Through exercising control over the income of directors and management, shareholders can ensure the accountability of those who make decisions for their companies.

4220 Stock option plans for independent directors will be approved if they appear reasonable, contain fixed issue and exercise rules and do not represent excessive dilution. Additionally, stock options which are in lieu of instead of in addition to cash compensation will be more favorably viewed.

4230 Refrain from Providing Pensions to Non-Employee directors Unless Approved by Shareholders

Shareholder analysis and approval of director compensation packages is desirable. Votes will be cast in favor of these shareholder proposals.

4240 Eliminate Non-Employee Director Retirement Plans.

Votes will be cast in favor of this proposal because retirement plans are only deemed appropriate for employee directors.

4250 Pay Half of Directors' Fees in Stock.

Votes will be cast in favor of shareholder proposals asking companies to pay directors at least half of their annual retainer in stock rather than in cash.

4300 Employee Stock Purchase Plans

We favor these plans as long as the discount does not exceed 15 percent of the stock's market value.

4400 Employee Stock Ownership Plans (ESOPS)

Votes will be cast in favor of shareholder proposals requesting that an ESOP, or shares placed with an ESOP, be submitted to shareholder approval.

4500 Golden Parachutes

Golden parachutes is the name given to severance agreements that provide generous benefits to top executives who are fired or who resign following a change in management control. Some golden parachutes can be deployed even without a change in control if a potential acquirer crosses a specified ownership threshold.

Shareholder proposals to ratify golden parachutes will be evaluated on a case-by-case basis, but shareholder proposals requesting submission of golden parachutes to shareholder vote will always be supported.

4600 Tin Parachutes

Tin parachutes is the name given to compensation agreements that cover middle management and other non-highly compensated employees in the event of a change in control. Like golden parachutes, these severance payment packages can be adopted by a board without shareholder approval, provided that the parachute is not adopted primarily as a defensive measure in response to a hostile bid.

Votes will be cast in favor of shareholder proposals requiring that a tin parachute be submitted to shareholder approval.

5000 PROXY VOTING PROCESS

5100 Abstention Votes

We will vote for shareholder proposals recommending that votes to "abstain" not be considered votes "cast" at an annual or special meeting, unless that consideration is required by state law.

5200 Bundled Proposals

Bundled proposals are management or shareholder proposals that present unrelated proxy items combined into a single vote. Each case should be evaluated on its own merits.

5300 Confidential Voting and Independent Inspections

We favor shareholder resolutions that require both a confidential voting policy and an independent inspector. However, we will not withhold a vote on a shareholder resolution calling for confidential voting if it failed to also require an independent inspector. The independent inspector could be arranged at a later date, either through letters to the company or another shareholder resolution.

5400 Distribution of Reports to "Street Name" Shareholders

Generally, we will vote for this shareholder proposal because we believe all shareholders have the same rights, including the right to the same degree of information.

5500 Disclose Shareholder Proposal's Author

Votes will be cast in support of proposals asking for disclosure of the name of the author of a shareholder resolution.

5600 Limit Management's Proxy Solicitation Costs

Shareholder proposals limiting management's proxy solicitation costs will be considered case-by-case. If the proposal is not unduly restrictive and it provides an exception for proxy contests, the proposal may be supported.

5700 Unmarked or Unvoted Ballots

Votes will be cast in favor of shareholder proposals specifying that no unmarked or unvoted ballots shall be counted in voting for members of the board or on any other issue placed before the shareholders.

5800 Mandate Attendance at Shareholder Meetings of Candidates for Election to the Board

Votes will be cast in favor of shareholder proposals mandating attendance at shareholder meetings of candidates for election to the board. Their presence gives shareholders an opportunity to question the candidate for election.

5900 Adjourn Meeting to Obtain Quorum

Case-by-case. Consider whether the reasons for the extension are beneficial to our interests.

8000 SOCIAL/POLITICAL ISSUES

a. Statement of Principles

The Board's stated fiduciary duty is to obtain the highest return for the Fund commensurate with acceptable levels of risk. This implies that non-financial considerations cannot take precedence to pure risk/return considerations in the evaluation of investment decisions. However, action taken by the Fund as a share-owner can be instrumental in encouraging action as a responsible corporate citizen by the companies in which the Fund has invested.

The Board expects the managements of the companies whose equity securities are held in the Fund's portfolio to conduct themselves with propriety and with a view toward social considerations. A level of performance above minimum adherence to the law is generally expected. If any improper practices come into being, the Board expects corporate management to move decisively to eliminate them and effect adequate controls to prevent recurrence.

If a company operates in a country or environment where serious human rights violations occur, the Board expects to see maximum progressive practices toward elimination of the violations. For employees who are disadvantaged because of such violations, the Board

expects the companies to persist in availing themselves of every reasonable and legally permissible means to ensure that all of their employees and families have what they need to pursue a life of dignity and personal well-being. Operating in such an environment shall carry with it special reporting burdens necessary to keep shareholders informed. If there is apparent lack of progress, the matter shall be viewed carefully to determine if a company is implicitly acquiescing in other parties' repressive practices.

On the other hand, the Board does not intend to supplant the duties which are the responsibility of federal or state regulatory agencies, such as the Equal Employment Opportunity Commission, the Environmental Protection Agency, the Occupational Safety and Health Agency, the Nuclear Regulatory Commission, the Securities and Exchange Commission, and others which are covered by law of the United States government or the State of California.

Should satisfaction of the Board's criteria by any company not be adequate, the Board will consider what action to take, which may include, but not be limited to, correspondence with the company, meetings with company officials, sponsoring of shareholder resolutions or, as a last resort, liquidation of System holdings in the company, if the sale is consistent with sound investment policy.

b. Board's Policies

The Board's policy regarding social/political resolutions has been to distinguish between those that ask for a report on activities performed by the firm and those that ask for cessation of activities or the implementation of pro-active policies.

In the case of resolutions that ask for a report on some of the company's activities, votes are generally cast in favor of a separate report to the shareholders in those cases where the activity under scrutiny is either not fully regulated in the United States and/or foreign countries or the problem addressed is judged to be serious enough to deserve a separate communication to the shareholders.

In the case of resolutions that ask for cessation of activities or the implementation of pro-active policies, the Board's policy has been to oppose them in those cases where (1) the activity under consideration is sufficiently regulated by U. S. federal or local regulatory authorities; (2) the activities refer to business operations or transactions taking place in foreign countries where different regulations and the principle of sovereignty apply; and (3) cessation of the activity or implementation of the pro-active policy would impose a substantial financial burden on the company.

Whenever the recommended vote is "Case-by-Case", staff will follow a baseline policy of voting against the proposal. However, that proposal may be supported if the company's financial performance as well as the company's behavior in the area object of the proposal are substandard.

c. Board's Guidelines on Social/Political Issues

<u>Issue</u>	<u>Vote</u>
8010 Abortion	
Warnings on contraceptives	Against
Report on human fetal tissue research	Against
Stop reimbursements for termination of human life	Against
8020 Animal rights	
Report on progress towards ending animal tests	For
Prohibit animal testing in laboratories	Against
Report on alternative ways to "factory farming" of animals	For
8030 Beer marketing	
Report on relationship between marketing beer to minors and driving accidents	Against
8040 Broadcasting	
Appoint an ombudsman for broadcast news	Against
8050 Burma	
Terminate investments and operations in Burma	Against
8060 Communist Countries	
Adoption of policies for dealing with Communist countries	Against
8070 Community reinvestment	
Report on lending in low-income and minority neighborhoods	For
Develop an overall fair lending policy	Against

<u>Issue</u>	<u>Vote</u>
8080 Corporate Contributions	
Publish in newspapers a detailed report of political contributions	Against
Limit corporate contributions only to those that further the interest of the corporation	Against
Forbid contributions to schools restricted by ideology	Against
Establish limitations on candidate PAC contributions	Against
8090 Drug pricing	
Report on drug pricing policy	Against
Adopt a drug price restraint policy	Against
8100 Energy	
Report on automotive fuel economy	Against
8110 Environment	
Report on safety precautions at pesticide plants	Against
Conduct an environmental audit	Case-by-case
Eliminate Styrofoam use	For
End or reduce chlorofluorocarbons production	For
Establish Environmental Board Committee	For
Report on the Ceres Principles	For
Endorse the Ceres Principles	Case-by-case
Report on environmental, health and safety hazards	Case-by-case
Reduce carbon dioxide emissions worldwide	Case-by-case
Reduce toxic chemical emissions worldwide	Case-by-case

Report on environmental impact of James Bay II project	Against
Accelerate cessation of production and sale of methyl chloroform and methyl bromide	For
Establish a fund for tiger protection and preservation	Against
Report hazardous waste sites in racial and ethnic neighborhoods	Case-by-case
Report foreign chemical emissions reduction	For
Report on accidents and environmental practices	For
Report on potential environmental liabilities	For
Ensure Environmental Board Committee is composed only of independent directors	Case-by-case
Chlorine phase-out	Case-by-case
Stop using paper products derived from clearcut ancient rainforests	Case-by-case
Pollution prevention audit	For

8120 Equal Employment

Report on progress toward achieving comparable worth	For
Progress report on the status of women and minorities	For
Ensure that minorities and women are not underutilized at higher level	Case-by-case
Phase out affirmative action programs	Against
Report on EEO practices	For
Report on results of "glass ceiling" audit	For

<u>Issue</u>	<u>Vote</u>
8130 Farming	
Report on family farm protection	Against
8140 Food	
Abstain from using food irradiation	Against
Abstain from using poultry which has been fed subtherapeutic levels of drugs	For
8150 Gun Sales	
Report on gun sales control	Against
8160 Health Care	
Report on alternative proposals	Against
8170 Housing	
Report on affordable housing problem	Against
Develop an overall fair lending policy	Against
Develop and implement fair housing insurance policies	Against
8180 Human Rights	
Include protection of human rights in international code of conduct	Against
Report on costs of Burma's boycott	Against
Establish human rights guidelines	Against
Report on allegations on Burma partner	Against
Moratorium on Indonesian mining operations	Against
Review global labor standards	Against
Adopt China human rights policy	Against

<u>Issue</u>	<u>Vote</u>
8190 Infant Formula	
End free supplies of infant formula to hospitals and maternity wards	Against
8200 International Debt	
Report on methods to avoid handling unlawful capital flight	Against
Forgive loans to debt-ridden Third World countries	Against
Forgive debt in return for implementation of conservation programs in developing countries	Against
Report on human rights criteria for loans to developing countries	Against
Moratorium on loans to Chile	Against
Use banks' influence to curb nuclear weapons proliferation in Argentina and Brazil	Against
8210 Israel	
Report on sale of an Israeli plant	Against
Phase out sales to Israel	Against
8215 Labor Standards	
Report on the company's international supplier labor standards	For
8220 Marijuana	
Leave the cigarette rolling paper business	Against
8225 Marketing	
Report on discontinuance of negative image logos	Case-by-case

	<u>Issue</u>	<u>Vote</u>
8230	Mexico	
	Comply with the maquiladora standards of conduct	Against
	Report on the equal employment and environmental effects of U.S. companies' Mexican maquiladora operations	Against
	Report on NAFTA's effect on shareholder value	Against
8240	Military conversion	
	Report on involvement with Strategic Defense Initiative	Against
	Establish social and ethical criteria for acceptance of military contracts	Against
8250	Mining	
	Report on mining in Northern Wisconsin	Against
8260	Northern Ireland	
	Sign the MacBride Principles	Against
	Review Northern Ireland operations	Case-by-case
	Independent monitoring of Fair Employment Code	Against
	Report on Northern Ireland subcontractors	Case-by-case
	Report on efforts to ensure adherence to adequate personnel policies	Case-by-case
8270	Nuclear Plants	
	Cancel nuclear generating plants	Against
	Report on quality assurance of nuclear reactors uranium clean up	Against
	Report on management of nuclear facilities	Against

<u>Issue</u>	<u>Vote</u>
Prohibit transportation of hazardous nuclear materials	Against
Report to shareholders on the impact of deregulation on nuclear and other operations	Against
Cease nuclear sales abroad	Against
8280 Occupational Health	
Report on impact of company's occupational health policy on competitiveness and shareholder value	Case-by-case
8290 Prison Labor	
Report on articles produced by Chinese prison labor	Against
8300 South Africa	
Endorse the SAAC Code of Conduct	For
Promote bank lending	For
8310 Telecommunications	
Report on universal access to the information superhighway	Against
Report on TV program standards regarding violence	Against
8320 Tobacco	
Establish minimum labeling and marketing standards for tobacco sales in Third World countries	For
Stop "Joe Camel" advertising	For
Comply with proposed FDA youth smoking regulations	Abstain
Accomplish tobacco spinoff	Case-by-case

<u>Issue</u>	<u>Vote</u>
Report on sales and promotion of tobacco in the Third World	Against
Stop production and sale of cigarettes	Against
End tobacco business	Against
Report on effect tobacco promotion has on sales to minors	Against
Report by insurance companies on the implications of holding tobacco stocks	Against
Report on targeted cigarette advertising	Against
Phase out of the tobacco or tobacco-related businesses	Against
Adherence to a voluntary code of cigarette advertising	Against
Bar from the board the head of a tobacco company	Against
Support conversion of tobacco farm land	Against
Refrain from efforts to undermine legislation geared to restrict smoking in public places	Against
Support enforcement mechanisms geared to preventing sales to minors of tobacco products	Against
Develop ethical criteria for cigarette advertising	Against
Report on nicotine manipulation	Against
Discourage youth smoking in developing countries	Against
Report on reducing smoking harm to infants	Against
Adopt a “smoke-free” restaurant policy	Against
Divest tobacco equities	Against

Issue**Vote**

Recoup health payments related to tobacco costs Against

Report on tobacco sales to minors in gas stations Against

Report on tobacco additives by chemical companies Against

Link executive compensation to decrease in youth smoking Against

Investigate company's involvement in tobacco smuggling Against

8330 Workplace

Report on creation of a high-performance workplace For